

**Testimony of Thomas Walther  
Building Efficiency Division of Johnson Controls, Inc.**

**Before the State of Michigan Standing Committee Meeting  
Energy and Technology**

**Representative Kenneth Horn, Chairman**

**January 17, 2012**

Mr. Chairman and members of the standing committee, my name is Tom Walther. I am Regional Market Director for State Government Solutions for the Southeast and Central US, with the Building Efficiency Group of Johnson Controls, Inc. We are the industry leader in developing and implementing energy efficiency building retrofits to all business sectors. I serve on the Executive Board of the National Association of State Energy Officials as Vice Chairman of the Affiliates, and on the national Board of Directors of the Energy Services Coalition as Vice President for Private Sector Members.

Johnson Controls is a \$40B American company with our Automotive Headquarters in Plymouth, MI. With nearly 11,000 employees housed in 64 office locations throughout Michigan, we pay over \$30M in Michigan payroll taxes. We have performed some \$24M in Performance Contracts throughout Michigan, creating over 480 jobs and producing over \$53M in economic stimulus in the state.



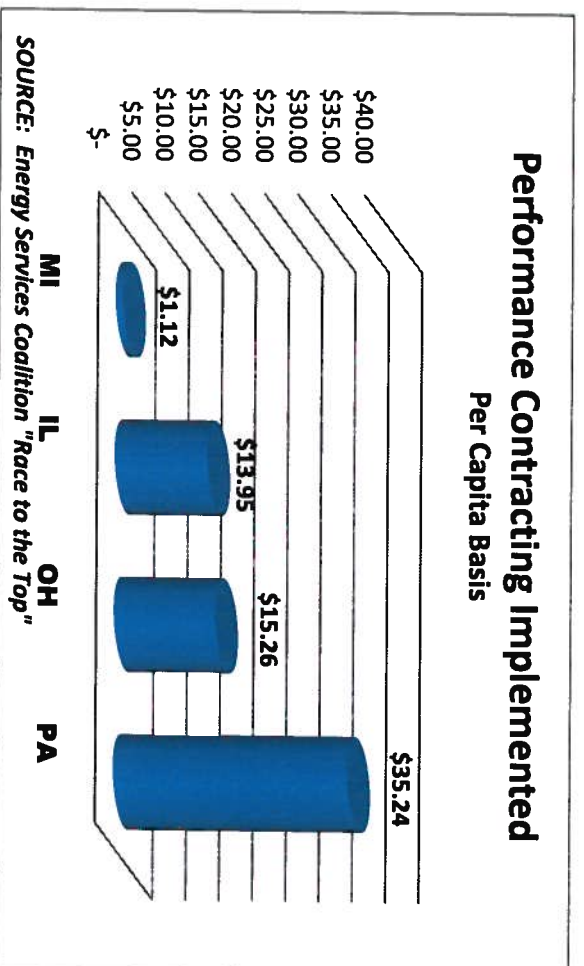
***Johnson Controls Corp Office, Glendale WI  
LEED PLATINUM CERTIFIED CAMPUS***



***Building Efficiency Corp Offices, Milwaukee, WI  
LEED GOLD CERTIFIED EXISTING BUILDING***

In the Building Efficiency Group, Johnson Controls delivers products, services and solutions that increase energy efficiency and lower operating costs in buildings for more than one million clients worldwide. We do this primarily through a procurement vehicle commonly called Energy Savings Performance Contracting. Through enabling legislation in place in nearly every state including Michigan, this instrument permits the repurposing of current energy spends to make capital improvements that create the savings necessary to make pay for these improvements over time.

Performance Contracting has been a successful procurement model for implementing energy efficiency retrofits in the public sector for over 25 years. This is because it offers public sector clients a method to address unfunded capital needs by leveraging increasing operational expenses. This is accomplished by producing energy and operational savings over a period of time that is used to fund infrastructure improvements through a lease arrangement provided by a third-party financial institution. The projects are designed so that the annual energy and operational savings are greater than or equal to the required payments over the term of the contract, leaving at least a net neutral impact on a client's budget. The energy and operational savings are guaranteed by the performance contractor over the term of the contract. If the guaranteed savings are not realized, the Energy Services Company (ESCO) pays the client the difference between what is saved and the guaranteed savings amount, assuring the client's budget is not shorted. Many states have implemented these programs for years. Some more than others:



Using performance contracting, the risk of performance belongs to the ESCO. The Performance Contractor takes complete turn-key responsibility for the project including preliminary energy audits, detailed design and engineering, business case analysis, installation, commissioning, performance measurement and verification. These projects typically include a variety of building improvements including lighting and mechanical system retrofits, technology upgrades, renewable energy installations, water efficiency upgrades, operator training and occupant education.

Performance contracting provides a number of advantages that are important elements of a successful energy and climate policy because it is a programmatic approach to utility use and costs. Therefore there is an inherent convergence between energy and climate policy, and economic prosperity.

Energy efficiency has the potential to create a substantial wave of new domestic green-collar jobs across the state. Efficiency improvement projects are relatively labor-intensive and require

local skilled workers. Using national statistics from the Bureau of Economic Analysis, a \$2 million energy efficiency construction-related project can create 40 local jobs. Using local contractors keeps the economic influence close to home. Meeting our energy challenges and goals will require thousands of new green workers — building technicians, building operators, energy engineers, construction crews, and manufacturing workers.

The best candidates for energy performance contracting are:

- State Agencies
- Municipalities
- Hospitals & Healthcare
- K-12 School Districts
- Public Housing
- Colleges & Universities
- Commercial & Industrial
- Federal Installations

Johnson Controls has helped several of these entities realize the benefits of using Energy Performance Contracting, including:

- Retrofitting the Cotton Correctional facilities through an energy performance contract with the Michigan Department of Corrections that is delivering \$1.3 million in savings over 7 years. It is estimated that this project created the equivalent of 21 local Michigan jobs.
- Completed three phases of Performance Contracts for the Wyandotte Public School District that have allowed significant building and energy efficiency improvements while delivering \$6.9 million in cost savings to the district. It is estimated that this project created the equivalent of 139 local Michigan jobs.
- Retrofitting the Empire State Building in New York to make it 38% more energy efficient.
- Improving energy and water conservation at the University of Massachusetts, Amherst, to deliver \$55.5 million in savings over 10 years.
- Reinventing real estate, energy and facilities management strategies for Agilent Technologies by reconfiguring its workspace across 220 locations, reducing operating costs by \$4.9 million in seven months.
- Installing the largest renewable energy generation system at the Orange County Convention Center (OCCC) in Orlando, using a solar photovoltaic (PV) system.
- Retrofitted our Corporate offices with a solar farm and other sustainable technologies to earn the **world's 1<sup>st</sup> LEED Platinum Certified Campus**
- Retrofitted our Controls Corporate offices in Milwaukee, WI to be the 1<sup>st</sup> LEED Silver Certified Building, then again to achieve LEED Gold Certified Building.

Energy efficiency projects using the Performance Contracting approach creates jobs, focuses investment in new growth industries, lowers energy consumption and cost, lowers operating costs, reduces our carbon emissions, mitigates risk, and creates healthier, safer and more comfortable environments for Michiganders

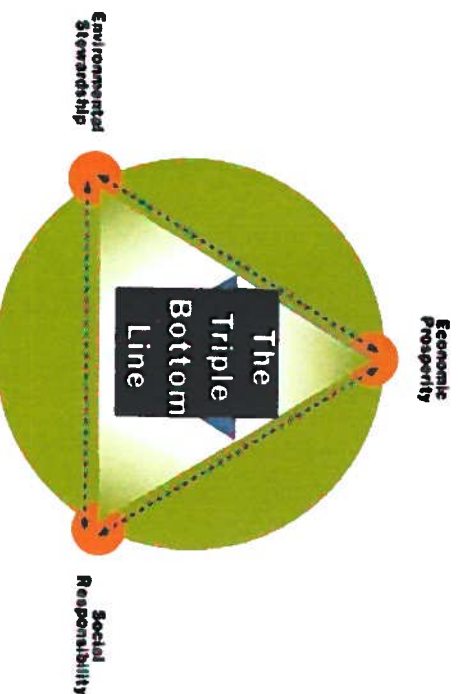
I appreciate the opportunity to share some insights about the opportunity Performance Contracting offers the State of Michigan and all public sector subdivisions for that matter, by

repurposing current utility costs to fund infrastructure renewal without increasing taxes, yet creating a positive economic environment.

As the largest provider of Energy Efficiency and Facilities Management solutions in the industry, I would like to share some of our experience and focus my comments on the positive impacts that Performance Contracting provides in the form of benefits. This information is well documented over the 25 years that Performance Contracting has been used.

In addition to the obvious financial and operational benefits derived by the user of a Performance Contract, there are a great number of additional benefits that may impact how you include Performance Contracting as an integral component in developing your state energy policy. As you likely know, according to the National Association of State Energy Officials (NASEO), there are some 42 states currently revising or establishing their energy policies. This offers a great opportunity to review and incorporate "Best Practices" from neighboring states legislators to establish the best in class approach. The fact that you are willing to hear the testimony of Energy Services Companies is a clear signal that you want to understand all aspects of the matter and you are to be commended for that.

I would like to briefly discuss three important benefits that result from Performance Contracting. These include: 1) The Economic Impact; 2) The Environmental Benefit, and 3) The Social Responsibility. In business, this is referred to as the "Triple Bottom line"



### **ECONOMIC IMPACT:**

In today's economic climate – especially in here in Michigan, jobs and job creation is a top of mind consideration with every decision made in the governmental sector. Performance Contracts create the equivalent of 20 jobs for every \$1M spent for Performance Contracts. These are skilled labor, both union and non-union construction-based jobs. Johnson Controls has implemented over \$24M of Performance Contracts in Michigan, creating some 480 local Michigan jobs.

Another economic impact that is equally important is that of trickle down spending – how many times a dollar changes hands, creating economic prosperity. This is the growth engine of the

local economy. That same \$24M in Performance Contracts, has created over \$53M in additional spending or “economic prosperity” in Michigan. That’s nearly a 3 to 1 multiplier.

### **ENVIRONMENTAL BENEFITS**

Every day we read or hear about global climate change and the potential catastrophic effects of increased greenhouse gasses on our planet and very survival. I’m not going to speak to these issues other than to say that there is undisputed evidence that the temperature of the planet is rising, and this is likely connected with the continuing increase of use of fossil fuels. More close to home, Michigan is a state of immense beauty and natural resources. It is also a manufacturing center requiring increasing levels of energy to compete globally. How do you as legislators balance these seemingly opposite conditions?

Performance Contracting is a way to address both reducing greenhouse gasses by reducing the output of fossil fuels, while assuring capacity for increased energy needs in the future. In Michigan alone, the Performance Contracts we have implemented have reduced greenhouse gas emissions equal to that of 20,000 acres of pine forest. By reducing the energy consumption, that power is available for other uses now or in the future. This is critical as some 25% of electric generation is scheduled to be retired over the next 20 years, and it is unlikely that there will be sufficient time or investment to replace that amount over the same period of time. This is why electric generators are supportive of Performance Contracting.

### **SOCIAL RESPONSIBILITY:**

Incorporating career training programs within a Performance Contract is an excellent example of how these programs demonstrate Social Responsibility. Embedded in a Performance Contract with the Virginia Dept. of Corrections, we established a technical training program to help the VDOC reduce their recidivism rates by training inmates’ skills to help them obtain well paying service technician jobs when they are released.

Another outstanding example is our partnership with the National Education Foundation for the “Igniting Creative Energies” program. This nationwide program combines age-appropriate curriculum with a contest to help engage students with understanding the science and importance of energy efficiency.

In conclusion, there is a convergence of beneficial outcomes that result from Performance Contracts for every Michigander. While the objective for each Performance Contract may be slightly different – all receive a multitude of benefits that impact building occupants and visitors lives daily.

Thank you again for the opportunity to share this information, and thank you for your consideration of Performance Contracting as an integral component of Michigan’s energy policy!